

Will snap election be a game changer for the markets?

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- The Prime Minister will be hoping, and expecting, to increase her majority substantially.
- The pound soared as the election was announced, which is not a surprise given it was looking undervalued.
- An increased majority for Theresa May's government would be assumed to be a market-friendly outcome, though recent events suggest nothing can be taken for granted.

Theresa May announced today that the UK will go to the polls on 8 June. The implications of the snap general election are at the same time both momentous and modest.

They are momentous because the Conservative Party is likely to win a substantial majority, replacing its slim majority in parliament. They are modest because, although her majority was only 17 seats, May has still been able to govern with reasonable impunity.

There can be little doubt of the most likely outcome. The Conservatives lead Labour by 18 points in the opinion polls. The bookmakers place the chance of a Conservative majority at 80%.

Simulations, based upon a uniform swing, suggest a majority of over 100 seats, almost exclusively at the cost of Labour.

Election promises

The key part of the Conservative manifesto will be the promise to deliver what has been termed a 'hard Brexit' through robust negotiation with the European Union. It remains to be seen whether the more populist government rhetoric that accompanied the Prime Minister's speech at last year's party conference returns when the manifesto is published in the coming weeks.

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Market response

The pound soared as the election was announced. That may seem counterintuitive as traders have been betting on sterling falling ever since last June's Brexit vote. The election is likely to shore up the government's hard Brexit line making it even more likely to happen.

However, we have felt for a while that the pound would rally. The devaluation that has taken place since the EU referendum has left sterling looking undervalued. Eventually those who have been speculating on its decline would need to close their positions.

Shifting focus

Ever since last June's referendum the financial markets have been focusing on what type of Brexit they expect. Now the focus will move on to what kind of Conservative majority is in store.

Generally the election of a centre-right party can be assumed to be a market-friendly outcome. There are, however, two important caveats. The first is that investors have struggled to understand how centre-right the current government is. The second is that sometimes what the market thinks it wants before an election is quite different from what it decides it wants after an election (as Donald Trump proved when he was elected last year).



Guy Foster, Head of Research

Guy leads Brewin Dolphin's Research team ensuring that a rigorous and exhaustive investment process is employed. He also provides recommendations on tactical

investment strategy to Brewin Dolphin's investment managers and strategic recommendations to the group's Asset Allocation Committee. Before joining Brewin Dolphin in 2006, Guy was an Investment Director at Hill Martin (Asset Management). Guy has a Masters in Finance from London Business School. He is also a CFA charterholder, holds the CISI Diploma, and is a member of the Society of Business Economists. Guy frequently discusses financial issues with the written and televised media as well as presenting to the staff and clients of Brewin Dolphin.

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